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Participation of the Private Sector  
in the Implementation of the  
Programme of the Second IDDA

## TABLE OF CONTENTS

	<u>Para</u>	<u>Page</u>
<b>Introduction .....</b>	1-6	1
 <b><u>Chapter:</u></b>		
<b>I    The Role and Constraints of the Indigenous Agents of Production and Distribution (APDs) in the Implementation of the Programme of the Second IDDA .....</b>	7-27	2
A. Importance of the role of APDs .....	7-11	2
B. The African context .....	12-16	3
C. The international scene .....	17-19	4
D. Main impediments to the development and utilization of indigenous APDs in industrial development .....	20-27	5
 <b>II    The Role of Government in Devising Policy Measures and Other Support Requirements to Enhance the Development and Contribution of the Indigenous Private Sector in Industrialization .....</b>	28-42	8
A. Policy objectives and expected benefits ....	30	9
B. Policy measures .....	31-42	10
 <b>III    Entrepreneurial Role of the Indigenous Private Sector .....</b>	43-54	17
A. Opportunities for future growth .....	46-47	18
B. Issues and problems .....	48	19
C. Characteristic features and attitudes .....	49	20
D. National support measures needed .....	50-54	21
 <b>IV    Recommendations and Actions for the Participation of the Private Sector in the Implementation of the Programme of the Second IDDA.....</b>	55-63	24

## INTRODUCTION

1. The major role played by the private sector in the advanced countries and in the newly industrialized countries and today's fast-growing countries in the process of economic development and industrialization has brought into focus its importance in the search for profound structural transformation of African economies. Indeed, this saviour's role of the private sector has been recognized by various African regional development fora.

2. The recent eleventh meeting of the Conference of African Ministers of Industry held in Mauritius in May/June 1993 in its resolution 2(XI) "on development of the private sector for the accelerated implementation of the programme of the second IDDA and beyond" highlighted the fundamental role that the private sector has played in the economic and industrial development of advanced and newly industrialized countries. The resolution called upon African countries to adopt concrete measures to create and sustain an enabling environment which would foster the development of the private sector and African entrepreneurship. In this regard, African financial and banking institutions were called upon to provide increased financial resources to the African private sector, in particular, to African industrial entrepreneurs.

3. Furthermore, the Mauritius Declaration on "Africa's accelerated industrial recovery and development in the context of the second Industrial Development Decade for Africa (1993-2002) and beyond" recognized the cardinal role of the private sector in the industrialization of Africa. In that Declaration, African countries committed themselves to take active steps to encourage African entrepreneurs by implementing a sound macro-economic framework and creating an appropriate enabling environment. They equally welcomed foreign investors for the financial resources, the technical know-how and the management skills that they can bring to Africa, while stressing that their highest priority lies in the stimulation of African entrepreneurship through the promotion and growth of small and medium enterprises. Moreover, the African Development Bank was hailed for its promotion of the African private sector, the development of intra-African trade through the establishment of AFREXIMBANK and the availability of lines of credit which the Bank places at the disposal of various African finance institutions in order to promote the financing of small and medium enterprises. The 20 November 1994 Africa Industrialization Day had for its major theme the promotion of private-sector development in Africa.

4. The recent Private Sector Expert Group Meeting on the Industrialization of Africa organized jointly by the United Nations Industrial Development Organization (UNIDO) and the Africa Business Round Table in cooperation with the Government of Cote d'Ivoire held in January 1995 in Abidjan, in which the Economic Commission for Africa and the African Development Bank actively participated, is a further testimony to the importance of the private sector in African industrialization.

5. Notwithstanding the recognition of the crucial role the private sector is called upon to play in the socio-economic transformation of African economies, there is need for continuous effort in injecting new thinking in the search for an effective nexus between government economic policies and private sector development and between finance institutions and the private-sector with a view to promoting industrial development in Africa.

6. This report draws from three main papers in the areas of private sector and industrial development. These include:

(a) Report of a Survey on Development of Industrial Entrepreneurship in Africa: A Synthesis by George F. Mbowe, Consultant, September 1981.

(b) Strengthening of the Role and Capabilities of Indigenous Agents of Production and Distribution for Accelerated Implementation of IDDA Objectives - ECA/JID/IDDA/WP.1, December 1985.

(c) Notes on the Private Sector Development and Privatisation in Africa, UNIDO, Working paper no. 8, January 1995.

**I. THE ROLE AND CONSTRAINTS OF THE INDIGENOUS AGENTS OF PRODUCTION AND DISTRIBUTION (APDs) IN THE IMPLEMENTATION OF THE PROGRAMME OF THE SECOND IDDA**

**A. Importance of the role of APDs**

7. As far as industrial development is concerned, both principles of self-reliance and self-sustainment call for an indigenous and internalized pattern of industrialization as opposed to the past and current development trend of peripheral industrialization, which over-relies on imported inputs and depends on outside markets. The achievement of self-reliant and self-sustained industrialization, in turn, presupposes among other things, that the commanding heights of the industrial sector and overall economy are indigenously controlled both at the policy- and decision-making level as well as at the implementation level. It is in this connection that the role that is being played by African governments as policy-makers and economic regulators and agents takes on its fullest meaning and utmost importance.

8. Equally crucial is the part to be played by indigenous economic operators and agents of production and distribution (APDs). As a matter of fact, no country can claim self-reliance and self-sustainment if its industrial structure is dominated by foreign investment, with the bulk of its industrial output being produced by affiliates of foreign corporations, transnationals or entities owned by non-residents. This is also true if its industrial production is governed by external market forces and heavily depends on imported inputs, if its dominant activities consist of

production of raw materials for export in an unprocessed form and light assembly industry oriented towards imported consumption patterns, if there are no local scientific and technological capabilities being developed and utilized and if there is no deliberate policy for promoting the development and maximum utilization of the indigenous APDs and related support services. It follows from the foregoing that the indigenous APDs both in the public, semi-public, mixed economy and private sector including the small-scale industry and informal sector, have a pivotal role to play for accelerated self-reliant and self-sustained industrial development in African countries.

9. Indeed, the APDs can contribute in the design of policies and to implementing a great deal of the Government-established development objectives and priorities by translating them into appropriate investment decisions. At each stage of their decision-making and their activities, the APDs' role affect the country's industrial development pace, growth and pattern.

10. As a matter of fact, they do so mainly by: (a) selecting the product lines and mix, which determined the raw materials to be used, whether local or imported and thereby, the possible establishment of linkages between industry, agriculture, energy and the type of technology to be used, whether appropriate and adaptable or not, whether capital- or labour-intensive or not; (b) negotiating the procurement of machinery and equipment from foreign suppliers, as well as the importation of semi-finished products and other intermediates, patents, management, design and engineering capacities, financial resources, on-the-job or in-plant and other training schemes; (c) choosing the location of industries in urban or rural areas; and (d) deciding whether or not they should test and multiply industrially the results of industrial Research and Development, etc.

11. Notwithstanding the above, more attention and support need to be given in most African countries to the role of the APDs and the related support services in the industrial and overall economic development.

## **B. The African context**

12. With a few exceptions and apart from the variable economic role that the State plays both as regulator and economic operator through the public sector, the economy of most African countries can be broadly described as consisting of three levels: foreigners at the top commanding the large industries, major mercantile concerns and plantation farming; other foreigners in the middle, controlling medium-level industrial activities and wholesaling as well as the larger retail outfits; and Africans at the bottom engaged mostly in small-scale industries and retail trade as well as peasant farming.

13. Although these three levels might occasionally overlap, and given the fact that the public industrial sector is rather small, it can be said that most of the industrial production and related distribution activities remain foreign-owned and controlled. This has a direct bearing on the strained capacity of African countries to implement effectively their industrial development objectives, mainly industrial self-reliance, sustainment, and integration, and other economic development goals including reducing dependence on imported skills and other inputs, bridging foreign exchange leakages, creating maximum local value added, using the existing industrial plants as a training ground for local entrepreneurs and decision-makers, etc.

14. It is this situation which in the past, has promoted in many cases the measures taken by African governments to nationalize the key sectors or activities of their national economies. Subsequently, and following the disillusion of the nationalizations, African countries have resorted to indigenization either as an alternative to nationalization or a major complementary effort in achieving economic autonomy and controlling the commanding heights of the economy.

15. Unfortunately, the lack of unbreakable political commitment to national independence and security seen in terms of economic advancement and the absence of required capabilities, combined with other factors to inhibit or to strain the expected output of the nationalization and indigenization measures. These, in some cases, confined themselves to indigenization of manpower (Africanization) leaving out indigenization of ownership, decision-making power, control and technology.

16. As a result of the foregoing and as stated above, a great deal of the implementing capacity and leverage as well as decision-making at this level continues to be in foreign private hands. Countries have to devise policies to ensure that this does not affect their own development objectives of self-reliance, sustainment, integration, independence, etc.

### C. The international scene

17. The globalization of world economic development, in particular, in terms of investment, finance and technology is bound to put more pronounced strains and complexity into industrial development in Africa. The pace of that globalization in international finance and other markets is outstripping the capacity of governments to provide the necessary framework of rules and cooperative arrangements. This situation is likely to put severe limits on national action to check such polarization within a globalized economy. This is mainly true for developing economies, in particular, the African economies.

18. Furthermore, the impact of the Uruguay Round, among other things, by bringing in general lowering of tariffs, will inevitably reduce the competitive edge of African economies. The rapid sweeping liberalization which is a major component of the Uruguay Round Agreements will put the few African industries to damaging exposure. Moreover, revolutionary technological changes are taking place in product development, manufacturing processes and production techniques through the innovative applications of informatics, biotechnology and new materials which add increased technological and quality dimensions to competitive capability. The whole coupled with the globalization of communications, trade and the development of strong regional trading blocs pose an increasingly dizzy challenge for African countries. There is, therefore, an urgent need to examine more closely and with the utmost concern the impact of global development and liberalization policies on industrialization in Africa.

19. The experience of newly industrialized countries has amply demonstrated that industrial growth and diversification and the successful development of the national private sector depended crucially on government overall support in creating the enabling environment, in terms of appropriate policies, targeting industries, developing the skills, technology and required institutions and in making an efficient use of finance and banking institutions as a tool to advance national interest. Africa would achieve a lot by emulating Asian experience and perfecting it.

**D. Main impediments to the development and utilization of the indigenous APDs in industrial development**

20. The main impediments to the development and utilization of indigenous APDs and related support services fall into two broad categories, at the macro-economic policy and, at the micro-operating levels:

**(a) Macro-economic policy level**

21. The main reason for inadequate utilization of the indigenous capabilities for accelerated industrialization lies in the lack of appropriate and deliberate policies and strategies. In most African countries, industrial strategies and policies are designed without due consideration to the role and the capabilities of the indigenous APDs, to the need to develop and enhance them and to provide them with the necessary incentives and support, removing the specific constraints and problems affecting their areas of activities, their views and experiences, etc.

22. Actually, few African countries have comprehensive and clearly defined policies and incentive schemes or appropriate

institutional arrangements <sup>1/</sup> for the full and efficient involvement of the various categories of indigenous APDs and related support services in the industrialization process both at the planning and the implementation levels. Where they exist, such industrial policies, strategies and arrangements have in most cases failed to create an economic environment conducive to the development and utilization of the indigenous APDs. The legislative and other policy measures adopted have failed to: (a) eliminate or reduce the adverse consequences for those agents of a number of structural straining factors such as market imperfections and segmentations, stiff oligopolistic competition in input and output markets by transnationals and large-scale economic operators, and (b) provide those agents with efficient problem-oriented assistance in their various areas of weaknesses such as limited access to formal credit, lack of managerial and technical skills, high input cost and lack of working capital.

23. There has even been discrimination against indigenous private APDs by foreign trade and investment promotion policies (large enterprises pay low prices for imported capital goods and materials and receive higher prices for their products as a result of selective tariffs, exemption from import duties, and export incentives, tax incentives, preferential treatment). Such discrimination not only has direct effects on the economic performance of APDs but also exerts indirect effects by depressing demand for APDs' products made more costly, by limiting the APDs' ability to upgrade and become more active in markets for intermediate products and in export markets, and by causing negative repercussions on institutional infrastructure and the supply of business services.

24. Another type of impediment stems from the lack of appropriate and efficient institutional mechanisms and arrangements, whether government- or business-community established, to deal with the specific problems of indigenous APDs, stimulate the latter's initiatives, provide a framework for exchange of views and experiences among them and defend and promote their interests.

25. Other constraints are associated with unavailability to the APDs of a whole range of production support or related activities and services such as product development and design, quality control, collection of information on input and product markets, materials and spare parts, equipment maintenance, marketing as well as dealing with organizational, legal, administrative and fiscal matters which are a relatively high fixed-cost element. As these cannot be secured or produced within the small-scale and medium-sized firms, the APDs mostly depend on external supply of such services. Arrangements or mechanisms to deliver them to the APD through training are not always problem-oriented and they might have no links and relation with the production activities.

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<sup>1/</sup> Such as Tanzania, Kenya, Zaire, Cameroon, Botswana and Mauritius which have actually established institutions for the promotion of small-scale and medium-sized enterprises.



26. The prevailing conditions of African economies suggest that the region is generally too underdeveloped to avail itself fully of the advantages of new development and trade opportunities. Therefore, in most African countries, structural macro-economic adjustments and major reorientation of industrial policies, strategies and programmes are necessary to strengthen the inter- and intra-sectoral manufacturing and technological linkages. The only alternative left to African economies is to review radically their present trading structure in the light of the GATT Agreement and consider making in-depth transformation of their respective economies in order to fit in with the mainstream of global trade investment and technology flow. This will call for a major restructuring of the pattern of industrial growth at the national, subregional and regional levels.

**(b) Micro-operating level**

27. Most indigenous APDs in Africa are engaged in small-scale industrial and other economic activities including the informal sector. The nature and the importance of perceived impediments for the development and expansion of their capabilities and capacities vary with the type of industrial activity (rural, urban, traditional, non-traditional, etc), with the type of market served (local or domestic, final demand, intermediate demand, export markets, etc.) and, of course, with the economic environment.

28. In general, however, the most common problems and constraints encountered at the micro-operating level include the following:

(a) Those related to the personal capabilities of the APDs as entities, such as:

- (i) lack of managerial and technical skills;
- (ii) difficulties in coping with administrative, legal and fiscal matters;
- (iii) inability to identify project opportunities;
- (iv) insufficient knowledge of the patterns of demand and supply especially in foreign markets; and
- (v) inability to understand and follow the preparation of preinvestment studies by engineering firms.

(b) Those related to the operational and input requirements of industrial production activities such as:

- (i) limited access to formal credit;
- (ii) difficulties in financing adequate working capital;
- (iii) high input cost;

- (iv) difficulties with regard to procurement of raw materials/ energy, equipment and intermediates;
- (v) slack demand;
- (vi) backward or low-efficiency technology;
- (vii) deficiencies in the quality of products;
- (viii) difficulties in meeting dates of delivery;
- (ix) lack of appropriate accounting/book-keeping as a basis for control of current operations;
- (x) lack of planning; and
- (xi) problems of local and other taxes which result in the raising of sale prices.

(c) Those related to both physical and institutional infrastructure such as:

- (i) lack of marketing and storage facilities;
- (ii) inadequate or lack of transport and communications infrastructure;
- (iii) business premises poorly laid out and mostly located in congested residential areas;
- (iv) lack of adequate and timely industrial information;
- (v) inadequate industrial extension services; and
- (vi) lack of coordination between government agencies providing assistance to indigenous APDs and support services.

## **II. THE ROLE OF GOVERNMENT IN DEVISING POLICY MEASURES AND OTHER SUPPORT REQUIREMENTS TO ENHANCE THE DEVELOPMENT AND CONTRIBUTION OF THE INDIGENOUS PRIVATE SECTOR IN INDUSTRIALIZATION**

29. The facts stated and analyzed above advocate the need for a fundamental change in the governments' attitude towards indigenous APDs and related support services as well as in that of the latter towards their own role in accelerated self-reliant and self-sustained industrial development.

30. In this connection, both governments and indigenous APDs should sharpen their perception of this crucial role as well as its implications. Governments should take the same into consideration

in designing and implementing appropriate policies to reactivate the APDs, develop, strengthen and mobilize their potential and motivate them for their more committed involvement in, and contribution to, the achievement of the country's established industrial development goals, priorities, programmes and projects. On their part, the indigenous APDs should multiply coordinated initiatives to better organize and promote themselves, so as to be able to undertake fruitful discussions with government about their problems and aspirations, to increase their ability to take advantage of the support and incentives offered by government and enhance their contribution to the country's industrial development.

#### A. Policy objectives and expected benefits

31. The policy measures to be designed and implemented for the maximum utilization of indigenous APDs for accelerated industrial development should be aimed at achieving related specific objectives from which the economy of the country has to derive clearly perceived benefits. The following includes the most important among such objectives and benefits:

(a) Self-reliance and self-sustainment: the indigenous APDs are more likely to be motivated and willing to contribute to the implementation of such objectives as the satisfaction of the needs of the population, the utilization of local raw materials, energy and other resources, the development and upgrading of local skills, etc. than are the alien APDs;

(b) Reducing the present over-dependence on imported managerial and technical skills;

(c) Reducing external costs, mainly the presently enormous foreign exchange leakages which take the form of payments of dividends, profits, salaries, royalties, technical consultancy fees, interests, etc.;

(d) Maximization of local value added;

(e) Reinvestment in the country's economy of benefits and other accumulated surpluses;

(f) Saving for the country of all or part of the cost of the current over-generous investment laws and incentives designed to attract foreign investment and related skills;

(g) Ensuring that investment decisions are national development objectives-oriented;

(h) Promoting economic integration through intensified utilization and processing of local raw materials in industrial activities;

(i) Utilization of the APDs' activities and capabilities as a training ground for additional indigenous skills;

(j) Enhancing the country's economic independence and security by promoting nationals to the commanding heights of the national economy, thereby contributing to the reduction of the sphere of influence of alien economic APDs. Interesting discoveries have been made on how foreign investment utilizes local finance, denying local investors alternatives without necessarily bringing outside resources into Africa, how they transfer payments abroad and how through vertical integration and use of transfer pricing they expand the leakage nets;

(k) Checking brain drain as well as the rural-urban exodus of workers;

(l) Filling the gaps in the implementation capacity as small-scale industries and related activities are neglected by foreign investors and as the indigenous APDs alone can invest in those areas, their role is crucial and irreplaceable in the development process in countries with abundant natural resources, cheap and unskilled labour, a lot of unsatisfied needs, limited capital availability, mounting unemployment, etc.

## **B. Policy measures**

32. The governments should design and implement a set of coherent policy measures, incentives, disincentives and other support measures, to remove identified impediments to and promote the development, reactivation and utilization of indigenous APDs and related support services, so as to achieve most of the objectives outlined in (A) above. The government should first undertake the following tasks:

### **1. Needs assessment**

These include:

(a) Reasonable definition of the indigenous APDs as a target group which will be appropriate to the circumstances prevailing in the country; this entails the identification of the APDs by activities (production: stage of manufacturing, whether primary processing, middle or final stage, branch, subsector, linkages with other activities, support services such as research, marketing, finance, distribution, training, etc.);

(b) Collection of accurate and comprehensive information about the nature and the scale of the activities and work programmes of existing indigenous APDs;

(c) Analysis of the characteristics, motivation, behaviour and aspirations of the APDs;

(d) Identification of the capabilities and capacities available to the APDs and the extent to which they are being utilized;

(e) Identification of the problems, constraints and weaknesses, technical, financial and organizational, of the APDs.

## 2. Policies

33. The government policies should be both target group-oriented and industrial development objectives-based. To this end, they should include the following:

(a) According high priority to the development and utilization of the indigenous APDs and making them a permanent element of industrial policy-making and planning;

(b) Clear vision of the role that the APDs are expected to play in the promotion of self-reliant and self-sustained industrial development as well as of the main related areas;

(c) Formulation of an integrated programme for the adequate use of the various components of the target APDs in areas of relevant government responsibility. This entails among other things, the establishment of appropriate mechanisms for the involvement of APDs in the planning process as well as the plan of implementation. To this end, the following is called for:

- (i) identification of the main areas of activities to be encouraged as well as industrial priority projects to which the APDs can make substantial contribution using available or improved capabilities and capacities. This involves, of necessity, identification at the national level of both resource-based and core industries with a broad scope for undertakings by indigenous APDs and potential for enhancing the latter's capacities and capabilities to participate in industrial inter-country projects while providing them with the required inputs;
- (ii) identification of the requirements for improved capabilities and capacities that are needed to enable the APDs to contribute effectively to the implementation of the industrial priority projects and activities;
- (iii) assistance in re-orienting and tailoring the work programme and the activities of the APDs towards the priority activities and projects identified under (i) above. This also involves relating the support services and activities to the specific problems to be solved, taking into account the

resource endowment, the capacities and the capabilities both available and planned.

(d) Design and provision of coordinated assistance measures as well as incentives and disincentives to motivate and stimulate the APDs and support services in the implementation of the country's industrial development objectives and in playing their related role in areas such as the utilization of local raw materials, energy and other resources, not only in the production process but also in research and training.

### 3. Assistance and other support measures

34. The design and implementation of assistance and other support measures as well as the removal or the amelioration of the existing ones should be preceded by a campaign explaining their relation to, and impact on, the country's development goals as well as APDs and, the crucial importance of the interests and the linkages with related undertakings and activities. These measures would mainly cover the following areas: information and sensitization, planning, coordination, training, finance, marketing, investment promotion, industrial cooperation.

#### 1. Information, sensitization, planning and coordination

35. Suggested measures include the following:

(a) Promoting and enhancing awareness of the importance of the country's industrial development objectives, the crucial role that the indigenous APDs should play in implementing them and the benefits to be derived therefrom both for the country and for the APDs themselves;

(b) Explaining and illustrating the interrelation between production activities and related support undertakings, (research, marketing, distribution, finance, training, etc.) and setting up inter-disciplinary working groups to study the specific contribution that the various development institutions and agencies should make in support of the upgrading and expansion of the production activities of the APDs;

(c) Promotion of the establishment of associations of manufacturers and industrialists and creation of an appropriate mechanism to coordinate their programmes and activities with those of similar organizations and support services (research, universities, financial institutions, chambers of commerce and industry, etc.) bearing in mind the gamut of the priority products selected, the natural resource endowment and the need to develop and use them;

(d) Preparation of a guide for indigenous investors and establishment of a mechanism whereby information on raw materials, available facilities and opportunities, etc. can reach those concerned;

(e) Survey of raw materials and energy resources available in the country and the subregion for local industrial production and research and dissemination of relevant information to the APDs;

(f) Provision of information on availability of equipment and maintenance facilities, technical know-how and entrepreneurial capabilities, quality and standard products and market competition, consultancy, industrial estates, etc.

## **2. Technical assistance and training**

36. The following are among suggested lines of action:

(a) Preparation, in conjunction with APD associations and institutions, of studies to identify industrial opportunities for indigenous undertakings, to evaluate the feasibility of projects, improve productivity, and elaborate feasibility studies;

(b) Provision of extension services related to the acquisition of raw materials, storage facilities, marketing of products, training, technical assistance in the development and expansion of APD enterprises and the choice and acquisition of equipment and technology as well as import licenses for capital goods;

(c) Establishment of training institutions for technicians and artisans as well as middle-level management;

(d) Insertion of entrepreneurial and technical skills training in all joint-venture agreements as well as of design and manufacturing capabilities in all consultancy and plant/equipment procurement arrangements;

(e) Establishment of small-scale development centres to provide assistance in areas such as training, technology, acquisition of raw materials, marketing, extension services, credit and finance, quality control, standardization, etc.

## **3. Finance and investment promotion**

37. The measures suggested include the following:

(a) Preparation, in conjunction with APD associations, of studies and implementation of the investment code to improve the investment climate for indigenous industrial undertakings and attract indigenous investment;

(b) Creation of long-term financing schemes and institutions particularly for small-scale industry and granting of preferential interest rates to keep investment cost low;

(c) Facilitating access of the APDs to credit including thorough revision of discriminatory measures with a view to influencing the environment more directly. This would involve the examination of statutory and other regulations concerning business standards and practices (licensing fees, factory legislation, etc.);

(d) Fiscal and other incentives to promote new industrial investment in priority areas or related and supporting activities;

(e) Promotion of mixed-economy enterprises and establishment of a venture capital scheme to serve as a risk-bearing medium for indigenous industrial undertakings;

(f) Strengthening or promotion of the crucial supportive role of the industrial public-sector enterprises in the development of local capital goods and other subsectors. In this connection, the public-sector's role is to overcome the principal shortcomings of the private sector, namely its inability or reluctance to invest in long-gestating industries and in those requiring massive investments such as steel, fertilizers and machine-making. The industries in the public sector should be chosen in basic- and capital-goods subsectors which provide inputs for the further expansion of the private sector;

(g) Adoption of measures to protect and prevent indigenous infant industries and related support activities from strangulation or absorption by transnational and foreign companies and strengthening of measures to enhance government control over the latter including inter-country cooperation.

#### 4. Marketing

38. The following are among suggested measures:

(a) Assistance to indigenous APDs for the organization of marketing and conducting of market research for the products manufactured by them and advising APDs on the nature of the emerging demand trends so that the pattern of production can be made to conform to the market;

(b) Revision of the rules governing the marketing of the goods produced by APDs to ensure that producers of quality goods get fair prices for them and that their goods get a ready market;

(c) Adoption of discriminating measures in favour of indigenous APDs to enable them to tap the domestic market without the fear of stiff competition from large and foreign enterprises. This would involve measures such as exclusively reserving certain classes of stores for purchase from indigenous APDs and allowing price differentials to them over the products of large-scale industries;



(d) Establishment of the principle of common production programmes, subcontracting and marketing arrangements for related large and foreign enterprises and the indigenous APDs. This would involve the adoption of measures to provide a degree of preference or assurance of a market for indigenous APDs as well as measures to demarcate the spheres of production;

(e) Establishment of trading houses or industrial cooperatives and associations as essential channels for supplying the indigenous APDs with financial assistance as well as technical assistance in organizing production, purchase of equipment and marketing, thereby providing incentives for continuous and increased production by offering to purchase the entire output of selected products or varieties at a predetermined price;

(f) Granting tax concessions in order to lessen the sale prices which adversely affect the marketability of the goods produced by indigenous APDs;

(g) Decision by the government to reserve a proportion of its purchase to be made from indigenous APDs;

(h) Provision of export promotional measures for products in respect of which a dynamic comparative advantage can be developed and secured. This involves the assessment and the tapping of foreign markets;

(i) Assistance in organizing adequate storage, providing transport and communications facilities and land and industrial estates.

## **5. Industrial cooperation and collaboration**

39. The governments should take into account the need to develop and utilize indigenous APDs in formulating their policies for industrial cooperation and collaboration. At the African regional level, guidelines and measures should be designed, among other things, to:

(a) Encourage the establishment and efficient functioning of multinational/subregional federations of national associations of indigenous manufacturers, chambers of commerce and industry, research institutes, universities, consultancy agencies, etc., to enable them to exchange views and experience on their involvement in and contribution to the accelerated self-reliant and self-sustained industrialization of their countries;

(b) Promote effective involvement of indigenous APDs and support services in the formulation of industrial policies and strategies through, for example, participation in appropriate meetings of intergovernmental organizations;

(c) Promote industrial cooperation at the level of enterprises, research institutes, consultancy agencies, and other

support services and institutions, mainly in the areas of natural resource development, energy, technology, agricultural implements, energy-generating equipment, engineering core and various forms of industrial production especially transport and communications equipment;

(d) Prepare, in conjunction with the indigenous APDs, model cooperation arrangements for use by the latter in negotiations at the enterprise/institution level;

(e) Provide the multinational federations of indigenous APDs with the necessary assistance and facilities to enable them to undertake consultations and enter into cooperative arrangements mainly in the areas mentioned in (c) above.

40. At the level of non-African foreign collaboration, the regulations concerning the functioning of foreign concerns and capital in the country should be designed bearing in mind, among other things, the following:

(a) Foreign collaboration should be confined to those fields where the import of foreign technology and training are necessary;

(b) Foreign capital should be conceived as a means to develop indigenous capabilities, or to bring productive resources in the country which will enhance its export earnings without overburdening it with debts and aggravating foreign-exchange leakages;

(c) Foreign aid should be used, especially if tied, for the development and expansion of industry-supporting infrastructure as well as the capital-goods and basic-metals sectors;

(d) In case of expansion of foreign concerns and capital, an increasing proportion of shares will be reserved for indigenous ownership so as to favour national control and participation and avoid excessive concentration of economic power in foreign hands.

41. The development, reactivation and utilization of indigenous APDs for accelerated self-reliant and self-sustained industrial development is a crucial issue which deserves much more attention and priority than it has received so far. The governments should include it as a key element in their industrial development strategies and policies. Specific coordinated measures to promote APDs should be designed along the lines of action suggested in this report. At the same time, the task of the governments is to ensure that indigenous APDs are capable of taking advantage of the opportunities and facilities created for them. This involves, among other things, the need to remove a number of built-in constraints from the industrial structure and economic environment, as well as those constraints associated with long-standing local traditions and ways of life. The relief of these depends on further review of education and training curricula and methods of teaching.

42. In addition, there is need for further "education and sensitizing" of the indigenous APDs for their enhanced awareness of and commitment to the industrial objectives of the country and the crucial role they should play in the accomplishment of those objectives. This implies, among other things, the establishment of a mechanism for permanent consultations and exchange of views and experience between the government machinery and the APDs as well as among the various organizations of the APDs, thereby facilitating the emergence of an industrial-democracy type of relationship.

43. One essential prerequisite for governments to be successful in developing, promoting, reactivating and utilizing indigenous APDs as stated above is not just to play their roles as regulator, coordinator, stimuli-giver or as economic agent through the industrial public sector and the mixed-economy sector. Governments also have to give a political base to all national efforts through unbreakable commitment to national development, independence and security, with due regard to the need for collective self-reliance and intra-African cooperation.

### III. ENTREPRENEURIAL ROLE OF THE INDIGENOUS PRIVATE SECTOR

44. While recognising that the nature of indigenous private enterprises varies considerably from country to country depending upon national environments and political awareness, the most practical course for the purpose of the present assessment would be to accept this sector's important role in all African countries. The development of African economies depends in no small measure on the investment and production capabilities of indigenous private entrepreneurs. It is also the general consensus that in most African countries the indigenous private sector accounts for a significant size of investments in productive sectors; it produces a large part of exports and basic consumer goods, generates substantial employment and it provides the economy with managerial and technical skills.

45. Bearing in mind these practical effects of the contribution by indigenous private enterprises, as well as the influence of their productivity and efficiency levels on the quality of management and production, it is becoming even more obvious that there is not only a need to adapt policy measures to encourage the co-existence of this sector with the State sector but changes should also be made in society's attitude, given the negative thinking about the private sector. There is no doubt that future growth in African economies will continue to depend on the capabilities of a vigorous private sector.

46. Among the significant areas of the entrepreneurial role of the indigenous private sector, the following are considered to be of importance and consequently, potential areas for the future industrial advancement of African countries:

(a) The establishment of industries which cater for mass consumption;

(b) The development of industrial culture and discipline together with consciousness of the importance of proper project identification and selection, reflected particularly in decision criteria;

(c) Mobilization of domestic savings for industrial development;

(d) Provision of maximum services to peasants and workers through consumption and expanded distribution networks;

(e) Determination of adequate provision of working capital and appropriate determination of capital structure;

(f) The need to conceive of a project in a rational manner;

(g) Promotion of export-oriented production activities to increase foreign-exchange earnings for achieving self-reliance;

(h) Increasing the value of local raw materials through processing them locally;

(i) Implementing government policies especially as embodied in industrial strategy;

(j) Providing consultancy services on investment, export promotion etc. through cooperative societies or chambers of commerce;

(k) Generating employment through use of appropriate technology;

(l) Producing inputs required by the State sector;

(m) Promoting medium-size enterprises by the indigenous private sector which cater for the social responsibility of the whole system of industrial enterprises;

(n) Promotion of projects with linkages effect in the economy while the State sector is involved in other major national projects;

(o) Supplementing and complementing efforts in the industrialization process by utilizing local raw materials, developing technologies, increasing manpower capabilities, upgrading human skills and so forth.

#### **A. Opportunities for future growth**

47. In the light of the proceeding discussion and the identification of the main contributors of the indigenous private sector

to national economies, it is felt that African countries have promising opportunities for industrial growth and expanded indigenous private sector. The opportunities for the entrepreneurial role by the indigenous sector is great. Profitable investments are inexhaustible and natural resources are still in abundance for exploitation. Indeed, the lacuna for an increased indigenous private-sector entrepreneurial role in support of national industrial development is very great. In this connection, it is noted that nearly all African countries have great potential for the development of:

- (a) Engineering industries;
- (b) Metallurgy industries - such as iron and steel;
- (c) Chemical and petro-chemical industries;
- (d) Building industries;
- (e) Forestry industries;
- (f) Construction industries;
- (g) Agro-industries;
- (h) Mining industries;
- (i) Assembly industries;
- (j) Food-processing industries;
- (k) Fishing industries;
- (l) Energy industries.

48. These sectors constitute the hard core of industries to be implemented under the Lagos Plan of Action and the IDDA programmes. In most African countries, there has been primary emphasis on starting these industries. This strategy has been supported by high-level authorities in most countries. One result of this strategy as agreed at the Lagos Conference is involvement of all State machinery and institutions to launch these activities at national, regional or subregional levels. Given the need for starting these industries, it is the responsibility of each country to get the most out of this strategy by better promotion and encouragement of the entrepreneurial role of all groups of industrial agents involved in industrial development. For the long-run benefits to the economy, there should be efforts to increase local participation and the active involvement of indigenous private entrepreneurship to exploit the opportunities offered by the above priority industries. The opportunities for profitable productivity investments are available. The advantages to the economy in terms of deepening technology and upgrading skills and manpower capabilities are very substantial.

#### **B. Issues and problems**

49. While considering the entrepreneurial role of the indigenous private sector in promoting industrial development, it is important to take note of the fact that the operations and management of the indigenous private sector have not been without issues and problems. The important interlinked issues and problems include:

- (a) Motivation and incentives. Lack of these aspects have inhibited optimum economic construction of this sector;

(b) Degree of consciousness of the importance of the indigenous private sector. In some countries concentration has been given to the State or foreign sector only. Very little concern or publicity has been given to the indigenous private sector and its potential;

(c) Identification of problems and needs. Often, no effort has been given to extend technical assistance to this sector;

(d) In-house training facilities. These have not been easily available at the required time to this sector;

(e) Communication between private entrepreneurs and government authorities has occasionally been very peripheral;

(f) Lack of motivation and stability of individuals to be trained in the indigenous sector;

(g) Financing has sometimes been a big bottleneck;

(h) Lack of clearly articulated policies on investment and on the role of the indigenous private sector;

(i) Excessive criticisms by politicians concerning private entrepreneurs, leading to loss of morale by those actively undervalued in the sector;

(j) Failure to indicate in the national strategy and economic measures the areas and direction in which indigenous private enterprises should be encouraged to grow;

(k) Administrative constraints and excessive bureaucracy in processing foreign-exchange applications from private entrepreneurs, approving industrial premises, allocating raw-material supplies, etc.;

(l) Lack of research and development facilities, consultancy services, and systems of bulk purchase of raw materials and spare parts;

(m) Lack of managerial skills have also diminished the effectiveness and contribution of this sector;

(n) Lack of information or access to it with regard to investment opportunities, project portfolios, government services, etc.

### C. Characteristic features and attitudes

50. Most entrepreneurs do not behave in a businesslike manner. For African entrepreneurs who have not had a long business experience or who have not had industrial cultural exposure at all, their decision to invest in a particular venture has always been a question of losing their shirts and bread for the family. It is obvious that African entrepreneurs have been extremely cautious in investing their funds in productive investments. These elements

have been reflected in their characteristic features and attitudes. Yet, given the circumstances and environment, African entrepreneurs cannot be said to be risk averse. Some of these elements are discussed below:

(a) Attitude to risk

51. Industrial entrepreneurs have tended to be over careful in their investment selections. Most of them have chosen activities with minimal risks and maximum government protection. As a result of this attitude, many of them have tended to go into activities which do not command high priority at the national level. However, given the circumstances and environment in which they operate, without even adequate governmental policy support, African entrepreneurs cannot be blamed for being so cautious;

(b) High profitability

52. Choice of activities for investments has tended most of the time to gravitate to projects with guaranteed high profits, low investment cost and shortest gestation period. This means that most of them prefer to go for middle and final stages of processing, for example, garment industries, steel tubes and steel furniture making etc.;

(c) Preference for foreign equipment

53. These entrepreneurs have a strong preference for foreign technology and lack of confidence in locally made equipment and machinery. This attitude runs counter to the policy of encouraging and developing local technology;

(d) Preference for local market

54. In the absence of attractive incentive schemes for encouraging competitive exports or because of complicated rebate procedures for exports, most entrepreneurs prefer to sell in the local market where their expenses are minimal.

D. National support measures needed

55. The elemental aspect that requires emphasis in the entrepreneurial role of the indigenous private sector is that, at the present stage in Africa, private enterprises were started by agricultural landlords with money to spare, by technicians who worked in bigger firms and desired to branch out in their own business, by the intelligentsia, by cooperative societies which were formerly engaged exclusively in export of raw materials, by retired civil servants, by people who were engaged in commercial

trade and so forth. All these entrepreneurs experience different problems in the running of their enterprises, such as:

- (a) Lack of technical talents;
- (b) Lack of management talents;
- (c) Some were goaded by the incessant urge for quick money or just business adventure;
- (d) Lack of raw materials, spare parts and other supplies.

56. Encouraging entrepreneurs requires the creation of suitable facilities for each case. The handling of the numerous problems facing indigenous private entrepreneurs is complicated. The attempt should always be to encourage potential industrialists to come forward through a methodical process of motivation and activation.

57. In general, the common areas of national measures to assist these entrepreneurs include a series of steps in financial assistance, in practical consultancy work, in technology, in marketing, in training, in research and development in providing infrastructure facilities, support for procurement of materials and equipment, and, in providing basic incentives. Certain specific points for assisting the development of indigenous private entrepreneurs are indicated below:

- (a) Establishment at the Nation Plan level of a Liaison Committee between the planning authority and bodies which represent entrepreneurs from the indigenous private sector;

- (b) Establishment of an Industrial Development Centre where these entrepreneurs can pick up some new industrial ideas. Project portfolios could also be made available for the entrepreneurs to choose what they are interested in;

- (c) Carrying out sector or industry studies about the desirable extent of concentration of indigenous private-sector enterprises;

- (d) Setting up of an arsenal of clear laws providing firms with advantages and incentives;

- (e) Establishment of an organization to help small- and medium- size firms in their participation in the export drive and to produce competitively;

- (f) Establishment of a group of specialized agencies to help these entrepreneurs in the industrial sectors and branches where they are involved or can find investment opportunities.



58. In addition to the above measures, governments can adopt some other measures calculated to:

- (a) Expedite the setting up of training centres;
- (b) Encourage specialized plants to supply intermediate goods and provide industrial services to potential entrepreneurs;
- (c) Organize marketing facilities throughout the country to promote local sale as well as exports;
- (d) Facilitate procurement arrangements through bulk purchasing;
- (e) Offer long-term loans at low rates of interest;
- (f) Stimulate the grouping of some related enterprises into cooperatives of associations of manufacturers;
- (g) Ensure direct institutional assistance through the formation of a central organization, (such as an Industrial Promotion and Extension Service);
- (h) Establish industrial institutes whose scope and functions would cover:
  - (i) technical research;
  - (ii) product design;
  - (iii) economic research;
  - (iv) training and extension services;
  - (v) information and industrial relations;
  - (vi) industrial workshop and industrial premises;
  - (vii) examining and seeking methods for correcting and ensuring full utilization of machinery, appropriate machine operations and several problems involved in this area;
  - (viii) adoption of suitable methods and production procedures for the indigenous situations of climate and raw materials availability, and adequacy of skilled manpower;
  - (ix) combination of the introduction of machinery and other capital-saving methods and devices;
  - (x) product choice, design and development;
  - (xi) exploring appropriate "intermediate technology";

- (xii) initiating manufacturing research whenever possible for particular items, in consultation with firms and national governments;
- (xiii) testing of equipment and machinery;
- (xiv) dissemination of 'know-how' aspects.

59. Other measures to improve and encourage the development of indigenous private-sector entrepreneurs should include:

- (a) Regular consultations between government and various entrepreneurial groups;
- (b) Governments striving to remove ambiguities about the role of private sectors;
- (c) Indigenous private entrepreneurs and government cooperating in the design and execution of policies to expand industries;
- (d) Governments devising, with the participation of the private sector, realistic multi-year development plans and/or coherent and plausible development strategies;
- (e) Review by government of all legislation and regulations affecting private enterprises, with a view towards removing inconsistencies and unintended disincentives, and to improve otherwise the design and administration of these systems;
- (f) Discouraging political leaders and the press from making undue public criticism of private enterprises. Encouragement should be given to business entrepreneurs to work harmoniously with government and, at the same time, the business community should demonstrate social responsibility and willingness to solve pressing national social problems through the industrialization process.

#### **IV. RECOMMENDATIONS AND ACTIONS FOR THE PARTICIPATION OF THE PRIVATE SECTOR IN THE IMPLEMENTATION OF THE PROGRAMME OF THE SECOND IDDA**

60. The role of the private sector is critical in the implementation of the programme of the second IDDA at national, subregional and regional levels. Government has the overall responsibility in mobilizing all development actors in order to achieve this objective. It has to create an enabling environment conducive to increased investment and entrepreneurial development.

61. An important factor in mobilizing the private sector in national economic development lies in finding an appropriate and constructive nexus between the State, industry/business and individuals, including the State and the market. Experience has shown that success in economic growth in newly industrialized

countries has been achieved through an information and exchange network between a well-educated civil service, industry and business leaders, and research/think-tank organizations/data bases which led to right interventions, industrial targeting and the like.

62. Another important starting point in enhancing an expanded role for the private sector in industrial development is for the State to invest heavily in education and other human-resource development. Investment in education is a productive asset and a precondition for exploiting economic opportunities. In order to fully involve the private sector in the implementation of the programme of the second IDDA, the actions discussed below are suggested at national, subregional/regional levels.

63. At the national level, there is an urgent need to sensitize the private sector on the IDDA programme, its objectives and areas of focus. The popularization of the programme of IDDA in the direction of the right economic operators will go a long way in raising their level of commitment. National committees on IDDA should be called upon to play this role of sensitization and popularization. In the absence of national committees on IDDA, the chambers of commerce and industry and the national associations of manufacturers or other government structures have to step in.

64. Once the commitment of the private sector is secured, the government has to come up with an effective package of assistance to the sector. This will include, inter alia, the following:

(a) Appropriate policy and institutional framework:

- (i) institute permanent dialogue between government and the private sector to harmonize policies and strategies on national economic and industrial development;
- (ii) strengthen or create think tank organizations in policy analysis and industrial targeting;
- (iii) organize high-level training programmes/seminars with a view to raising the level of political and economic awareness of the implications and impact of international agreements on African economic development;
- (iv) mobilize the national community to further the burning and priority issues of national development.

(b) Entrepreneurial development:

- (i) Since the promotion of the private sector is synonymous with the development of entrepreneurial capacities and capabilities, governments should establish regular curricula on the development of indigenous entrepreneurship programmes with a view to attracting

entrepreneurs to venture in all sectors of the national economy;

- (ii) governments should establish learning institutions to provide training in enterprise creation, management, marketing, production technology, planning and control, computer application, etc.;
- (iii) governments should establish pilot business "incubators" and "shell factories" for the promotion of young industrial entrepreneurs;
- (iv) constantly, governments should, through its multifaceted actions, build up in the society an industrial culture, entrepreneurial motivation, entrepreneurial competence, etc;

(c) Industrial estates and infrastructure:

In order to motivate industrial entrepreneurs and minimize "establishment cost", governments or relevant public departments should provide a minimum basic economic infrastructure. These are, inter alia, industrial estates, common facilities, feasibility study centres, consultancy services, marketing assistance, provision of raw materials at bulk prices, etc.

(d) Financial support to industrial development and SMEs:

- (i) reactivation of development banks in African countries is urgently needed, in particular, specific industrial finance/banking institutions. On parallel lines, commercial banks should be mandated to open special "windows" to provide soft loans to SMEs and rural industries. African governments should enhance the capacity of the financial sector for effective national coverage and intermediation. Other financial institutions, i.e. insurance companies, mutual funds, investment banks, mortgage finance institutions, etc, should enlarge their activities with a view to deepening financial services;
- (ii) African governments should promote and harness internal investment resources available, in particular domestic savings. Resources readily investible from pension funds, building societies, etc should be actively tapped;
- (iii) governments should set up participation funds and guarantee funds to provide additional support in financing small- and medium-scale industries;

- (iv) African governments should ensure a stable macro-economic environment including currency stability that offers adequate incentives to savings and investments;
- (v) Mechanisms should be put in place to reduce capital flight and encourage the repatriation of capital.

(e) Technological support:

- (i) national workshops should be organized with the participation of the private sector (SMEs), research and development institutions, universities and polytechnics, on the formulation or review/readjustment of science and technology policy, with special emphasis on improving indigenous capabilities and capacity for technology upgrading, absorption, adaptation and application;
- (ii) national centres should be set up for gathering, processing and disseminating industrial technology information;
- (iii) cooperation with the private sector, especially local entrepreneurs, should be intensified with a view to identifying priorities and potential investment opportunities based on targeted industrial subsectors and product groups which can be developed on the basis of comparative advantage, for export markets (in terms of global competitiveness and quality standard) and local markets for promotion among financing institutions.
- (iv) national workshops should be organized for the private sector (SMEs) on negotiation of technology acquisition, including licensing agreements, joint ventures etc.

65. Any reasonable approach to economic development and industrialization in Africa should take into account the crucial dimension of the need for subregional and regional cooperation in all sectors of development. In this regard, conditions are to be created to induce private-sector participation in the implementation of the programme of the IDDA. The overall goal is to maximize the contribution of the indigenous private sector and entrepreneurs in the industrial development of African countries.

66. The starting point in moulding a pioneering spirit and an effective entrepreneurial role for the private sector in the implementation of the IDDA programme is clarity in specifications of objectives, sectors and policies for investment. This responsibility lies with African governments.

67. African governments should endeavour to establish new and/or strengthen existing subregional and regional structures and mechan-

isms to lay the foundation of economic and industrial cooperation and integration. Such facilities include:

- (a) consultancy services;
- (b) entrepreneurial development programmes;
- (c) management institutes;
- (d) research centres;
- (e) joint pilot schemes and joint ventures, etc.

68. These facilities are essential in promoting inter-country as well as national projects. African industry should also patronize existing regional institutions and centres established to develop industrial capabilities such as African Regional Centre for Engineering, Design and Manufacturing (ARCEDEM), African Regional Centre for Technology (ARCT), African Institute for Higher Technical Training and Research (AIHTTR), etc. Their mandates and programmes should be regularly reviewed and reoriented in support of priority areas and activities for private-sector development, for the latter's increased participation in the implementation of the second IDDA programme.